

SUNRISE EDUCATION CENTER
REPORT ON FINANCIAL STATEMENTS
(with required supplemental information)
YEAR ENDED JUNE 30, 2006

CONTENTS

	<u>Page</u>
Independent auditors' report	iii - iv
Management's Discussion and Analysis	v - x
Basic financial statements	
Government-wide financial statements	
Statement of net assets	1
Statement of activities	2
Fund financial statements	
Balance sheet - governmental funds	3
Statement of revenues, expenditures and changes in fund balances - governmental funds.....	4
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	5
Fiduciary funds	
Statement of fiduciary assets and liabilities	6
Notes to financial statements	7 - 18
Required supplementary information	19
Budgetary comparison schedule - general fund	20
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	21 - 22



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sunrise Education Center
Tawas City, Michigan

July 19, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sunrise Education Center (the Academy), as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sunrise Education Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sunrise Education Center as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Sunrise Education Center
Tawas City, Michigan

July 19, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2006, on our consideration of Sunrise Education Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Sunrise Education Center's (Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

- The Academy had an increase in the fund balance in the general fund of \$5,384 compared to a budgeted figure of \$1,828. This gives the Academy a general fund balance of \$15,430.
- The Academy retired \$20,740 in long-term debt during the year.
- The Academy invested \$13,851 in capital assets during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1
Organization of Sunrise Education Center's
Financial Report

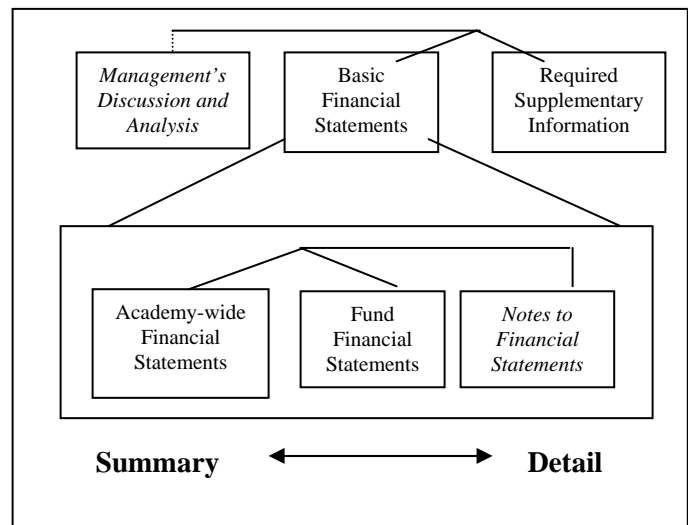


Figure A-2 summarized the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Governmental funds	Fiduciary funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary	Instances in which the Academy administers resources on behalf of someone else, such as students
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the Academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State Law and the Academy establishes other funds to help it control and manage money for particular purposes.

- Governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.
- Fiduciary funds - The Academy is the trustee, or fiduciary, for assets that belong to others. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance its operations.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets of \$22,065 improved by \$15,477 during the year. See Figures A-3 and A-4.

The total revenues increased by 3% to \$542,089. This increase is mainly due to additional federal grants received during the year. State aid foundation allowance included in revenue from state sources accounts for 88% of the Academy's revenue.

The total cost of instruction decreased by 14% to \$253,545 primarily due to a reduction in employee costs.

Academy governmental activities

Figure A-3		
Sunrise Education Center's Net Assets		
	2006	2005
Current assets	\$ 97,462	\$ 100,721
Capital assets, net	790,878	801,525
Total assets	888,340	902,246
Current liabilities	104,938	112,704
Long-term liabilities	761,337	782,954
Total liabilities	866,275	895,658
Net assets (deficit):		
Invested in capital assets, net of related debt	6,635	(3,458)
Unrestricted, as restated	15,430	10,046
Total net assets (deficit)	\$ 22,065	\$ 6,588

Figure A-4		
Changes in Sunrise Education Center's Net Assets		
	2006	2005
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 90,715	\$ 61,920
General revenues:		
State aid - unrestricted	445,373	453,925
Other	6,001	10,952
Total general revenues	451,374	464,877
Total revenues	542,089	526,797
Expenses:		
Instruction	253,545	289,689
Support services	189,865	202,339
Interest and fees	58,704	45,956
Unallocated depreciation	24,498	22,926
Total expenses	526,612	560,910
Change in net assets (deficit)	\$ 15,477	\$ (34,113)

Financial analysis of the Academy's funds

The Academy's fund balance increased by \$5,384 to \$15,430. Transfers to the debt service fund for principal and interest payments on long-term debt of \$79,444 were made from the general fund. Instruction expenses decreased as a result of a reduction in employee costs.

General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both the revenue and expenditure which reflected anticipated decreases in state aid and actual salary figures for staff.

While the Academy's final budget for the general fund anticipated revenues would exceed expenditures and other financing sources or uses by \$1,828, the actual results for the year showed revenues over expenditures of \$5,384.

Actual revenues were \$11,625 more than budgeted, due primarily to an additional federal grant received just before year end.

The actual expenditures were \$8,068 over budget due primarily to the expenditures related to the above referenced federal grant.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2006, the Academy had invested \$790,878 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$10,647 from the beginning of the year. Total depreciation expense for the year was \$24,498. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

Figure A-5				
Sunrise Education Center's Capital Assets				
	Cost	Accumulated depreciation	Net book value	2005 net
Land	\$ 55,000	\$	\$ 55,000	\$ 55,000
Buidling and improvements	782,334	60,076	722,258	746,525
Computer equipment	13,851	231	13,620	
Furniture and fixtures	6,121	6,121		
Total	<u>\$ 857,306</u>	<u>\$ 66,428</u>	<u>\$ 790,878</u>	<u>\$ 801,525</u>

Capital assets (Concluded)

The Academy purchased additional computer equipment which was funded by a federal grant.

Long-term debt

The Academy repaid principal on long-term debt of \$20,740 during 2006. The Academy did not borrow any additional long-term debt during the year. See Note 6 for more information.

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was unaware of existing circumstances that could significantly affect its financial health in the future.

The Board of Directors and management have taken appropriate steps to reduce cost. Considering the factors noted, necessary reductions touched every segment of the operation. Primary consideration was given to maintaining the educational integrity of the program.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, LLC at P.O. Box 141493, Grand Rapids, Michigan, 49514, phone (616) 785-8440.

**SUNRISE EDUCATION CENTER
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 8,987
Receivables:	
Due from other governmental units	88,475
TOTAL CURRENT ASSETS	<u>97,462</u>
NONCURRENT ASSETS:	
Capital assets	857,306
Less accumulated depreciation	(66,428)
TOTAL NONCURRENT ASSETS	<u>790,878</u>
TOTAL ASSETS	<u><u>\$ 888,340</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 31,707
Accrued salaries and related items	35,182
Accrued management fee	9,998
Note payable	5,145
Current portion mortgage payable	22,906
TOTAL CURRENT LIABILITIES	104,938
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	761,337
TOTAL LIABILITIES	<u>866,275</u>
NET ASSETS:	
Invested in capital assets, net of related debt	6,635
Unrestricted	15,430
TOTAL NET ASSETS	<u>22,065</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 888,340</u></u>

**SUNRISE EDUCATION CENTER
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 253,545	\$	\$ 89,340	\$ (164,205)
Support services	189,865		1,375	(188,490)
Interest on long-term debt	58,704			(58,704)
Unallocated depreciation	24,498			(24,498)
Total governmental activities	<u>\$ 526,612</u>	<u>\$</u>	<u>\$ 90,715</u>	<u>(435,897)</u>
General revenues:				
State sources				445,373
Other				<u>6,001</u>
Total general revenues				<u>451,374</u>
CHANGE IN NET ASSETS				15,477
NET ASSETS, beginning of year				<u>6,588</u>
NET ASSETS, end of year				<u>\$ 22,065</u>

**SUNRISE EDUCATION CENTER
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General fund</u>	<u>Debt service fund</u>	<u>Total governmental funds</u>
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 8,987	\$	\$ 8,987
Receivables:			
Due from other governmental units	<u>88,475</u>		<u>88,475</u>
TOTAL ASSETS	<u><u>\$ 97,462</u></u>	<u><u>\$</u></u>	<u><u>\$ 97,462</u></u>
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Accounts payable	\$ 31,707	\$	\$ 31,707
Accrued salaries and related items	35,182		35,182
Accrued management fee	9,998		9,998
Note payable	<u>5,145</u>		<u>5,145</u>
TOTAL LIABILITIES	82,032		82,032
FUND BALANCE:			
Unreserved, undesignated	<u>15,430</u>		<u>15,430</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 97,462</u></u>	<u><u>\$</u></u>	<u><u>\$ 97,462</u></u>
Total governmental fund balance			\$ 15,430
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds:			
The cost of the capital assets is		\$ 857,306	
Accumulated depreciation is		<u>(66,428)</u>	
			790,878
Long-term liabilities are not due and payable in the current period and are not reported in the funds:			
Mortgage payable			<u>(784,243)</u>
Net assets of governmental activities			<u><u>\$ 22,065</u></u>

See notes to financial statements.

SUNRISE EDUCATION CENTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General fund	Debt service	Total governmental funds
REVENUES:			
Local sources	\$ 4,595	\$	\$ 4,595
State sources	476,145		476,145
Federal sources	59,943		59,943
Incoming transfers	1,406		1,406
Total revenues	<u>542,089</u>		<u>542,089</u>
EXPENDITURES:			
Current:			
Instruction:			
Basic programs	188,318		188,318
Added needs	79,078		79,078
Total instruction	<u>267,396</u>		<u>267,396</u>
Support services:			
Pupil	3,375		3,375
Instructional staff	4,477		4,477
General administration	77,016		77,016
School administration	28,977		28,977
Business services	1,981		1,981
Operation and maintenance	36,145		36,145
Pupil transportation	31,764		31,764
Central support services	6,130		6,130
Total support services	<u>189,865</u>		<u>189,865</u>
Debt service:			
Principal retirement		20,740	20,740
Interest and fiscal charges		58,704	58,704
Total debt service		<u>79,444</u>	<u>79,444</u>
Total expenditures	<u>457,261</u>	<u>79,444</u>	<u>536,705</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	84,828	(79,444)	5,384
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds		79,444	79,444
Operating transfers to other funds	(79,444)		(79,444)
Total other financing sources (uses)	<u>(79,444)</u>	<u>79,444</u>	
NET CHANGE IN FUND BALANCES	5,384		5,384
FUND BALANCES:			
Beginning of year	10,046		10,046
End of year	<u>\$ 15,430</u>	<u>\$</u>	<u>\$ 15,430</u>

See notes to financial statements.

**SUNRISE EDUCATION CENTER
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances total governmental funds	\$ 5,384
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Capital outlay	13,851
Depreciation expense	(24,498)

Repayments of principal on long-term debts are expenditures in the governmental funds, but not in the statement of activities (where they are reductions of liabilities).

Principal repayment on loan payable	<u>20,740</u>
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Change in net assets of governmental activities	<u><u>\$ 15,477</u></u>
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**SUNRISE EDUCATION CENTER
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2006**

	<u>Agency fund</u>
ASSETS:	
Cash	<u>\$ 2,125</u>
LIABILITIES:	
Due to CLASS organization	<u>\$ 2,125</u>

SUNRISE EDUCATION CENTER NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Sunrise Education Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

The Sunrise Education Center (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Saginaw Valley State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 30, 2011. The Academy's Board of Directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Continued)

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt.

Fiduciary funds accounts for assets held by the Academy in a trustee capacity or an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Academy holds for others in an agency capacity.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when received within 60 days of year end. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits accounts.

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, are shown net of an allowance for uncollectibles.

3. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

The Academy's capitalization policy is to capitalize individual amounts exceeding \$5,000.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building and building improvements	20 - 50 years
Furniture and fixtures	5 years
Computer equipment	5 years

4. Long-term Obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

6. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general fund. Annual appropriations lapse at year end.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 P.A. 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The Academy does not consider these amendments to be significant.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

Excess of expenditures over appropriations in budgeted funds - During the year, the Academy incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

Budgetd item	Budget appropriation	Actual expenditure	Budget variable
General fund - general administration	\$ 75,760	\$ 77,016	\$ (1,256)
General fund - school administration	28,594	28,977	(383)
General fund - business	1,780	1,981	(201)
General fund - operations and maintenance	35,550	36,145	(595)
General fund - pupil transportation	28,000	31,764	(3,764)
General fund - central support	5,500	6,130	(630)
General fund - operating transfers	79,443	79,444	(1)

NOTE 3 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2006, none of the Academy's bank balance of approximately \$52,000 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 55,000	\$	\$	\$ 55,000
Capital assets, being depreciated:				
Building and building improvements	782,334			782,334
Computer equipment		13,851		13,851
Furniture and fixtures	6,121			6,121
Total capital assets, being depreciated	788,455	13,851		802,306
Accumulated depreciation:				
Building and building improvements	35,809	24,267		60,076
Computer equipment		231		231
Furniture and fixtures	6,121			6,121
Total accumulated depreciation	41,930	24,498		66,428
Net capital assets being depreciated	746,525	(10,647)		735,878
Net governmental capital assets	\$ 801,525	\$ (10,647)	\$	\$ 790,878

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS (Concluded)

Depreciation for the fiscal year ended June 30, 2006 amounted to \$24,498. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - NOTE PAYABLE

At June 30, 2006, the Academy has \$5,145 outstanding from a state aid anticipation note dated August 20, 2005. The note, which has an interest rate of 6.26%, matures July 20, 2006. The note is secured by future state school aid payments.

Balance June 30, 2005	Additions	Payments	Balance June 30, 2006
<u>\$ 20,370</u>	<u>\$ 50,000</u>	<u>\$ 65,225</u>	<u>\$ 5,145</u>

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2006:

	Mortgage note payable
Long-term debt, July 1, 2005	\$ 804,983
Deductions:	
Principal payments	<u>20,740</u>
Balance, June 30, 2006	784,243
Less current portion	<u>22,906</u>
Total due after one year	<u>\$ 761,337</u>

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

Long-term debt currently outstanding is as follows:

Mortgage note payable with monthly installments of \$6,810 through August 2023 with an interest rate of 7.6% adjusted annually. The mortgage is secured by the property.

\$ 784,243

The annual requirements to amortize long-term debts outstanding, including estimated interest of \$636,418 are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 22,906	\$ 58,816	\$ 81,722
2008	24,709	57,013	81,722
2009	26,654	55,068	81,722
2010	28,752	52,970	81,722
2011	31,015	50,707	81,722
2012 - 2016	195,764	212,846	408,610
2017 - 2021	285,920	133,690	419,610
2022 - 2023	168,523	15,308	183,831
	<u><u>\$ 784,243</u></u>	<u><u>\$ 636,418</u></u>	<u><u>\$ 1,420,661</u></u>

NOTE 7 - TRANSFERS

Operating transfers between the governmental funds were as follows:

Operating transfers out	Operating transfers in
General fund <u><u>\$ 79,444</u></u>	Debt service fund <u><u>\$ 79,444</u></u>

Operating transfers were made to the debt service fund to meet principal and interest payments on the mortgage note.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to the Saginaw Valley State University, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2006, the Academy incurred expense of approximately \$13,400 for oversight fees.

NOTE 9 - MANAGEMENT AGREEMENT

The Academy had entered into a five year (through June 2008) management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy is \$57,655 for the fiscal year 2006.

NOTE 10 - PURCHASED SERVICES

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools.

NOTE 11 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 12 - SUBSEQUENT EVENT

At an August 15, 2006 special board meeting, Choice Schools Associates, LLC initiated the termination of the management contract with the Sunrise Education Academy Board of Directors. Management services will continue for 90 days, extended to 120 days if needed, to help the Academy transition to a new management company.

REQUIRED SUPPLEMENTARY INFORMATION

**SUNRISE EDUCATION CENTER
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$ 6,700	\$ 3,000	\$ 4,595	\$ 1,595
State sources	540,982	476,191	476,145	(46)
Federal sources	43,883	50,073	59,943	9,870
Incoming transfers		1,200	1,406	206
Total revenues	<u>591,565</u>	<u>530,464</u>	<u>542,089</u>	<u>11,625</u>
EXPENDITURES:				
Instruction:				
Basic programs	190,935	184,372	188,318	3,946
Added needs	<u>76,394</u>	<u>69,830</u>	<u>79,078</u>	<u>9,248</u>
Total instruction	<u>267,329</u>	<u>254,202</u>	<u>267,396</u>	<u>13,194</u>
Support services:				
Pupil	7,000	7,000	3,375	3,625
Instructional staff	8,139	12,807	4,477	8,330
General administration	86,947	75,760	77,016	(1,256)
School administration	65,815	28,594	28,977	(383)
Business services	9,000	1,780	1,981	(201)
Operation and maintenance	32,800	35,550	36,145	(595)
Pupil transportation	33,000	28,000	31,764	(3,764)
Central support services	<u>4,000</u>	<u>5,500</u>	<u>6,130</u>	<u>(630)</u>
Total support services	<u>246,701</u>	<u>194,991</u>	<u>189,865</u>	<u>5,126</u>
Total expenditures	<u>514,030</u>	<u>449,193</u>	<u>457,261</u>	<u>(8,068)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>77,535</u>	<u>81,271</u>	<u>84,828</u>	<u>19,693</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers to other funds	<u>(67,265)</u>	<u>(79,443)</u>	<u>(79,444)</u>	<u>(1)</u>
Total other financing uses	<u>(67,265)</u>	<u>(79,443)</u>	<u>(79,444)</u>	<u>(1)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 10,270</u>	<u>\$ 1,828</u>	<u>5,384</u>	<u>\$ 3,556</u>
FUND BALANCE:				
Beginning of year			<u>10,046</u>	
End of year			<u>\$ 15,430</u>	



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of Directors
Sunrise Education Center
Tawas City, Michigan

July 19, 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sunrise Education Center as of and for the year ended June 30, 2006, which collectively comprise Sunrise Education Center's basic financial statements of the Academy and have issued our report thereon dated July 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sunrise Education Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
Sunrise Education Center
Tawas City, Michigan

July 19, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sunrise Education Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Sunrise Education Center in a separate letter dated July 19, 2006.

This report is intended solely for the information and use of the Board of Directors, management, U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants



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July 19, 2006

To the Board of Directors
Sunrise Education Center
Tawas City, Michigan

In planning and performing our audit of the financial statements of Sunrise Education Center for the year ended June 30, 2006, we considered the Academy's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated July 19, 2006, on the financial statements of Sunrise Education Center.

Purchase Orders

It is policy that the CAO review purchase orders and sign off as evidence of approval. It was noted during the audit that not all purchase orders were being approved. This practice may defeat the control a purchase order system is intended to provide. To help monitor the volume of purchases due to budget constraints and ensure that purchases are initiated with proper approval, we recommend that purchase orders be prepared and approved before items are received or ordered by other means.

Initial Listing of Cash Receipts

Choice School Associates requires that an initial listing of cash receipts be prepared and compared to the bank deposit and initialed by the Principal. During our review of cash receipts we noted that the listing was not being signed off as reviewed. Management should consider having one employee, preferably one who does not have accounting responsibilities, open the mail, make a control list of all receipts, restrictively endorse all items received as “for deposit only”, and make copies of the checks received. The receipts should go to the Office Professional for processing and deposit to the bank on a timely basis. A Choice School Associate employee should compare the initial listing of cash receipts to the deposit slip and recording in the general ledger. We also noted that cash receipts were not numbered. The Academy should consider using pre-numbered cash receipts.

Approval to Pay Invoices

Choice Schools approves when to pay invoices, but the list of approved invoices is not retained or the approval is not documented. We recommend that the list of invoices to be paid be retained with evidence of approval to pay, or maintain a monthly internal control checklist to sign off that approval was given. Management could also consider approving each invoice to be paid with a sign off on the invoice.

Federal Grants

Currently federal expenditures are not kept in their own federal expenditure accounts. All federal grant expenditures are required by law to have their own accounts to avoid commingling funds with non-federal expenditures. We suggest setting up individual accounts to track federal expenditures separately.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the Academy in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a Academy's actual revenues were less than budgeted revenues and, at the same time, depleted the Academy fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 5 of the financial statements. While there may be technical violations of the act we believe the Academy's current budget procedures are adequate.

Cash Management - Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the Academy within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the Academy request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the Academy's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the Academy beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the Academy could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the Academy. We will have to evaluate the Academy's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Academy personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Directors
Sunrise Education Center
East Tawas, Michigan

6

July 19, 2006

This report is intended solely for the information and use of Sunrise Education Center, management, and others within the Academy, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costerisan + Ellis, P.C.



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July 19, 2006

To the Board of Directors
Sunrise Education Center
Tawas City, Michigan

We have audited the financial statements of Sunrise Education Center for the year ended June 30, 2006, and have issued our report thereon dated July 19, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated March 21, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Sunrise Education Center. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether Sunrise Education Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Sunrise Education Center are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Sunrise Education Center during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates to report.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Sunrise Education Center's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Sunrise Education Center, either individually or in the aggregate, indicate matters that could have a significant effect on the Academy's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Sunrise Education Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors and management of Sunrise Education Center and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan + Ellis, P.C.